2001 Country Reports on Economic Policy and Trade Practices
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MEXICO

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GDP	484	540	590	
Real GDP Growth (pct)	3.7	6.9	1	
GDP by Sector (Still seeking this information)				
Manufacturing	92.5	107.6	109.0	
Agriculture	20.6	22.7	23.0	
Services: 2/				
Commerce, Restaurants, Hotels	87.6	110.7	115	
Transportation, Storage, Communications	49.0	59.7	63.4	
Financial, Insurance, Real Estate, Rents	57.2	65.4	70.2	
Communal, Social, Personal	104	120.1	132.1	
Per Capita GDP (US$)	4,927	5,460	5,840	
Labor Force (Millions)	37.5	39.741.1		
Unemployment Rate (pct)	2.5	2.2	2.4	1/
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	16.8	4.9	11.5	
Consumer Price Inflation	12.3	9.0	6.5	
Exchange Rate (Peso/US$)	9.6	9.4	8.1	3/
Balance of Payments and Trade:				
Total Exports FOB	136.4	166.4	80.5	4/
Exports to United States	120.4	147.6	71.2	
Total Imports FOB	142.0	174.5	84.4	
Imports from United States	105.3	127.6	60.1	
Trade Balance	-5.6	-8.1	-3.9	
Balance with United States	16.0	20.0	20.4	
External Public Debt (net)	96.8	84.6	87.7	
Fiscal Deficit/GDP (Pct)	1.1	0.9	0.7	
Current Account Deficit/GDP (pct)	2.9	3.1	3.5	

Debt Service Payments/Exports (pct)	20.2	14.7	13.8
Gold and Foreign Exchange Reserves	70.9	74.6	89.8
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

Note: The data comes from the Mexican Bulletin of Statistical Information (INEGI) and the Secretariat of Economy (SECON).

1/ Average of first seven months of 2001.

2/ Numbers are rounded.

3/ Average of first seven months of 2001.

4/ Accumulated trade first six months of 2001.

1. General Policy Framework

Mexico has experienced uninterrupted economic growth since 1996. Growth averaged 5.2 percent during 1996-1999 and reached 6.9 percent in 2000. Due to the downturn in the U.S. economy, 2001 growth estimates are sharply down. Analysts forecast the September 11 terrorist attacks against the United States will impede any growth that had been anticipated for Mexico for the remainder of 2001 and the beginning of 2002.

Exports, led by the "maquiladora" industry, remain Mexico's primary engine of growth. Mexico's exports totaled $166 billion in 2000, representing nearly 31 percent of Mexico's GDP. Almost 90 percent of Mexico's exports went to the United States in 2000 representing over 27 percent of Mexico's GDP. Mexico's close ties to the U.S. market were an advantage during the long expansion in the United States but now sharply limit Mexican growth.

Mexico is trying to diversify its markets through bilateral and multilateral trade agreements, including a Free Trade Agreement (FTA) with the European Union, which was concluded in 2000. These FTAs will eventually create new markets for Mexican products, while allowing more foreign competition, although we expect that exports to the United States will continue to dominate Mexico's trade picture.

Reflecting the peso appreciation caused by high exports and strong FDI inflows, Mexico's imports have been rising faster than exports, and have reversed Mexico's trade surplus of earlier years. Mexico's trade deficit for 2000 totaled about $8 billion and may rise in 2001.

Mexico is the second-largest trading partner for the United States after Canada. The United States is overwhelmingly Mexico's largest export market and source of imports. Two-way trade with the United States totaled $275.2 billion in 2000. During the first six months of 2001, two-way trade amounted to $131.3 billion, down somewhat from the first six months of 2000. We expect the final trade figure for 2001 to be lower than 2000 because of the economic slowdown in the United States and the decrease in border-cross trade in the aftermath of September 11. However, this would be the first decline since NAFTA was implemented in 1994. Once a recovery starts in the United States, we expect the two-way trade figures to grow again.

The Mexican government adopted tight monetary and fiscal policies in 2000 in response to rapid economic growth (at one point in 2000, the economy was growing at 7.8 percent on an annualized basis). Growth for 2001 has been revised downwards from seven percent to one percent or less, with negative growth for the last two quarters of 2001. Despite the economic outlook, the Mexican Central Bank is not likely to loosen monetary policy significantly because high wage settlements in some sectors and a weakening peso pose inflationary dangers. There is little room for a looser fiscal policy because the goal of the Fox Administration's proposed fiscal reform is to raise revenue as a percentage of GDP, not cut taxes.

2. Exchange Rate Policy

Since December 1994, the peso has been floating freely, with only infrequent interventions by the Bank of Mexico. During September and October 2001, the peso depreciated somewhat vis a vis the dollar but for most of 2000 and 2001 the peso appreciated. The central bank's tight monetary policy, strong export growth, and high FDI inflows largely explain the peso's real appreciation during the period. FDI inflows for 2001 were especially high because of Citigroup's $12.5 billion purchase of Banamex. Mexico's oil exports in 2000 took on added significance because of high international oil prices (prices are currently declining). The accumulated impact of these developments raised Mexico's perceived creditworthiness, which further bolstered the value of the peso.

3. Structural Policies

Since the NAFTA was implemented in 1994, two-way trade between the United States and Mexico has grown from $106.5 billion to $275.2 billion in 2000. The rapid growth in two-way trade has been remarkable given that Mexico's economy is about a twentieth of the size of the U.S. economy. Geographic proximity to the United States has spurred this growth, but the key factors have been NAFTA and Government of Mexico policies, which have effectively opened up the Mexican market to most types of U.S. exports and investment. In 2000, for instance, the United States supplied about 73 percent of Mexico's imports.

Mexican law acknowledges Mexico's obligations under NAFTA and other international agreements regarding government procurement obligations. American firms have in the past complained to the U.S. Embassy that, occasionally, Mexican government procurement authorities have not complied with the obligation to provide forty days notice for bid submissions, but these complaints declined in 2001.

Mexico is a lightly-taxed country by international standards. Tax collections plus revenues from the state-owned oil company, PEMEX, amount to roughly 18 percent of GDP. The Fox Administration has proposed a fiscal reform law, which would impose a uniform Value-Added Tax (VAT). The idea is to reduce Mexico's dependence on oil revenues, and generate net additional revenue for Mexico's pressing social needs. Moody's rated Mexican government bonds as investment grade last year, but Standard & Poors (S&P) is waiting to do so until passage of the fiscal reform law. The proposed law has run into stiff resistance in Congress and passage is uncertain.

4. Debt Management Policies

Mexico has successfully returned to international capital markets since the peso crisis. While Mexican bonds are still not rated investment grade by S & P, in January 2001 Mexican bonds were yielding only about 400 basis points above U.S. Treasurys. Mexico's 2001 foreign debt as a percentage of exports amounts to 93 percent, and its short-term debt as a percentage of reserves 65 percent. These are considered manageable numbers by most financial analysts.

5. Significant Barriers to U.S. Exports

There are no significant barriers to most U.S. exports in Mexico. There are, however, some products which are subject to anti-dumping and/or countervailing duties, which effectively shut out U.S. products. Products subject to these duties are listed in the March 2, 2001, edition of the Diario Oficial (Mexico's equivalent of the Federal Register) and include pork, beef, apples, High Fructose Corn Syrup (HFCS), liquid soda, hydrogen peroxide, ammoniac sulphate, gasoline additives, cristal polysterene, polycloride (PVC), bonded paper, corrugated rods, and unfinished steel tubes. American agricultural exporters are also concerned that in 2003, when import tariffs and quotas on a number of agricultural products are scheduled for elimination under the terms of the NAFTA, the Mexican government will come under pressure from local producers to place non-tariff barriers on many of these products.

Mexico is open to most types of foreign investment. The two most important exceptions are energy and telecommunications. Mexico's constitution and Foreign Investment Law of 1992 reserve oil and gas extraction and electric power transmission for the state. Only Mexican citizens may own gasoline stations. Gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations sell only PEMEX lubricants, although other lubricants are manufactured and sold in Mexico. Mexico does allow private, including foreign, ownership and operation of electric power plants. The government also encourages private sector participation in the transportation, distribution, and storage of natural gas. However, there has been little private and foreign investment in these areas because of regulatory uncertainties.

Foreign investment in most telecommunication services is limited to a 49 percent equity position. In cellular telephony and paging services, foreign investors may participate up to 100 percent, subject to approval by the national foreign investment commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The government's satellite firm was privatized in early 1998. Foreign investment is limited to a 49 percent equity position.

Telmex's legal monopoly on long distance and international telephone service ended in August 1996, and competition was introduced in January 1997. There is competition in all major cities and much of the rest of Mexico. Eight firms are authorized to provide long distance service; five of these have U.S. partners. USTR cited Mexico in its April 2001 annual "1377" review for failure to meet its commitments under the WTO Basic Telecommunication Agreement. USTR's concerns include a lack of proper regulation of the dominant carrier, Telmex, and failure of the regulator to provide for cost-based interconnection at all technically feasible points on Mexico's network, including cross-border interconnection and International Simple Resale. Local, basic telephone service is technically open to competition, but practical competition in this area has not developed. The United States is concerned about the lack of competition in Mexico's telecommunications sector and may pursue more competition in this sector through WTO mechanisms.

Mexico has made a complete turnaround with respect to allowing private and foreign ownership in the banking sector. In 1982, the banks were nationalized. With this year's Citigroup acquisition of Banamex, foreigners now control about 80 percent of the banking industry. Citigroup, Banco Bilbao Vizcaya Argentarias (through its purchase of BANCOMER), and Banco Santander (through its purchase of SERFIN) hold roughly two-thirds of the nation's bank deposits. Foreign ownership over the medium-term should encourage the adoption of international standards in Mexican banking.

With increased transparency as one of its objectives, the Government of Mexico revised the Federal Law on Metrology and Standardization in May 1997. While the changes provided for privatization of the accreditation program and greater transparency, some Mexican ministries continue to consider particular regulations to be executive orders that need not be published for comment and thereby exempt from WTO and NAFTA rules concerning notification of proposals and an opportunity for comment.

U.S. exporters of certain vitamins, nutritional supplements, and herbal remedies have reported that Mexico's revised health law regulations impede their access to the Mexican market. There is a lack of clarity as to what products are now classified as medicines or pharmaceuticals, for which Mexico's Ministry of Health requires inspection and approval of the manufacturing facility in order to obtain a sanitary license. Additionally, Mexican government officials have advised U.S. industry and government officials that Mexican law does not allow them to conduct the required inspections and approvals for foreign-based facilities and are looking at ways to address these concerns consistent with WTO and NAFTA obligations. However, since the regulations' implementation in February 2000, the U.S. government has seen no progress.

Mexico's Law on Metrology and Standardization mandates that products subject to technical regulations ("Normas Oficiales Mexicanas" (NOMs)) be certified by the government agency that issued the NOM or by an authorized independent certification body. Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. The current position of the Government of Mexico is to only recognize additional certification bodies on a "needs basis" raises serious concerns and is a strong indication that the existing product certification bodies will continue to monopolize the market.

U.S. exporters have complained that standards are enforced more strictly for imports than for domestically produced products. Imports are inspected at the border by Customs, while domestic products are inspected randomly at the retail level by the Procuraduria Federal del Consumidor (PROFECO, the Mexican federal consumer protection agency). U.S. exporters have also complained of inconsistencies among ports of entry.

Mexico has approximately 700 mandatory standards (NOMs), and the number increases weekly. Only 81 have been issued by the Secretariat of the Economy. The rest are from eight other government agencies. Each agency has its own NOM compliance certification procedures. Only Economy and the Secretariat of Agriculture (for a limited subsector of its NOMs) have published their certification procedures. On February 29, 2000, SECOFI published new procedures to certify NOM compliance. They became effective on May 1, 2000. The new procedures apply only to Economy-issued NOMs, and allow foreign manufacturers from countries having trade agreements with Mexico to hold title to NOM certificates. The procedures allow expansion of the ownership of a NOM certificate to more than one importer. Prior practice required each importer to pay for a separate certificate, even if importing a product identical to that imported by another importer (this remains true for NOMs issued by government agencies other than Economy).

The new procedures were designed to reduce the cost of exports to Mexico by eliminating redundant testing and certification. However, companies complain that the product certification bodies have increased the cost of certification and are charging for expansion of ownership of a certificate. U.S. companies are thus not benefiting from the new procedures. Additionally, U.S. companies have reported the Mexican laboratories are requiring that the products tested and certified meet the rules of origin with which Mexico has a free trade agreement, basically tying rules of origin to conformity assessment.

In 1996, Mexico enacted a new Customs Law that simplified procedures. The law transferred some operations to private sector customs brokers, who are subject to sanctions if they violate customs procedures. As a result, some brokers have been very restrictive in their interpretation of Mexican regulations and standards. In an attempt to combat under-invoicing and other forms of customs fraud, Mexican Customs maintains (and in some cases has significantly expanded) measures that can make it more expensive to bring in legitimate imports, including an industry sector registry and estimated prices. During 2001, the most serious change was a reduction in the number of port-of-entry through which some textile products can enter Mexico.

Mexico uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries: including apples, milled rice, beer, distilled spirits, chemicals, wood, paper and paperboard products, textiles, apparel, toys, tools, and appliance. On October 1, 2000, the Mexican government implemented a burdensome new surety system for goods subject to these prices. Since that date, importers can no longer post a bond to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead, they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash is not returned for six months, and then only if the Mexican government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. U.S. exporters have long complained that estimated pricing under Mexico's old surety system unfairly restricted trade, but implementation of the cash deposit requirement has created significant additional costs. Indeed, Mexican banks charge as much as $1,500 to open cash accounts and $250 for each transaction.

6. Export Subsidies Policies

The government does not have an export subsidy program. Provisions for promoting exports in the Foreign Trade Law have been limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export-oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms, the Berne Convention for the Protection of Literary and Artistic Works (1971), the Paris Convention for the Protection of Industrial Property (1967), the International Convention for the Protection of New Varieties of Plants, the Universal Copyright Convention, and the Brussels Satellite Convention.

Mexico established minimum standards for protection of sound recordings, computer programs, and proprietary data, and by providing express protection for trade secrets and proprietary information. The term of patent protection is 20 years from the date of filing. Trademarks are granted for 10-year renewable periods. The government continues to strengthen its domestic legal framework for protecting intellectual property. In 1997, it implemented a new copyright law and amended its penal code to strengthen penalties against copyright piracy. In 1999, it again modified its penal code for copyright and trademark piracy, classifying them as felonies and increasing penalties. Mexico passed a law in 1996 providing protection to plant species, and in 1998 provided protection for integrated circuits. Mexico has acceded to the WIPO Copyright Treaty and the Performances and Phonograms Treaty, which provide protection for digital works.

The United States and Mexico regularly review progress on IPR issues. The United States is principally concerned with the lack of consistent enforcement of IPR rights in Mexico. According to statistics collected by industry organizations, IPR enforcement actions during the first six months of 2001 declined significantly compared with the first six months of 2000.

Music piracy increased dramatically in 2000 compared with 1999, according to industry. Total losses in 2000 amounted to $ 525.7 million. Besides combating the continuing high piracy levels in Mexico, the United States wants Mexico to improve its protection of test data held by patent holders from use by "second comer" companies seeking permission to market drugs. The United States is also concerned that the Mexican Copyright Law is not fully compliant with NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and is consulting with Mexico on how to address the deficiencies.

8. Worker Rights

a. *The Right of Association:* The constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed; about 25 percent of the work force is unionized. Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. In 1999, a committee of experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican government to amend these provisions. A 1996 Mexican Supreme Court decision invalidated similar restrictions in the laws of two states, and in 1999 the same court ruled that public sector entities could not require that only one union represent workers. A 2000 Supreme Court decision invalidated "exclusion contracts," which mandated that only one trade union could represent workers.

Most labor confederations, federations, and separate national unions are still allied with the Institutional Revolutionary Party (PRI), which governed Mexico for 71 years, until December 2000. Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and have supported PRI government policies at crucial moments. This generally gave the unions some influence on government policies, but limited their freedom of action. Rivalries within and between PRI-allied organizations have been strong. Although the benefits of labor's special relationship with the PRI and the government have been decreasing in recent years, the PRI's loss of the presidency in July 2000 will be the real test of the relationship. A smaller number of labor federations and independent unions are not allied with the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from antiunion discrimination, but enforcement is uneven. As many as 90 percent of contracts registered are signed without the knowledge or approval of the workers. Independent unions have often encountered obstacles to recognition, especially by local labor boards. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, although this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer, and rural organizations ceased to limit free collective bargaining, as had been the case for the previous decade. The government, major employers, and unions meet periodically to discuss labor relations under the "new labor culture" mechanism. The government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and none has been reported for many years.

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, and children under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at medium and large companies but is inadequate at small companies and in agriculture and is nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (for myriad street vendors and in thousands of family workshops) and in agriculture. Although enforcement is spotty, the government formally requires that children attend a minimum of nine years of school and may hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work:* The FLL provides for a daily minimum wage set annually, usually effective January 1, by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the commission to reconvene to consider a special increase. In December 199, the commission adopted a 10 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone, and most border areas, the daily minimum wage has been 37.90 pesos ($4.10 in late September 2000). However, daily minimum wage earners actually are paid 43.21 pesos, due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 16 percent of the labor force earns the daily minimum wage or less. Industrial workers, under collective bargaining contracts, tend to average three to four times the daily minimum wage.

The law and collective agreements also provide extensive additional benefits. Legally required benefits include social security, medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal workweek. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for the overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's Occupational Safety and Health (OSH) laws and rules are relatively advanced. Completely revised regulations were published in 1997. Employers must observe "general regulations on safety and health in the work place" (which reflect close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review workplace safety and health needs. Individual employees or unions may complain directly to STPS/OSH officials; workers may remove themselves from hazardous situations without reprisal and bring complaints before the Federal Labor Board at no cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal and state inspectors (fewer than 700 nationwide) are stretched too thin for effective comprehensive enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		163
Total Manufacturing		20,379
Food & Kindred Products	5,969	
Chemicals & Allied Products	3,436	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	1,095	
Electric & Electronic Equipment	(D)	
Transportation Equipment	5,029	
Other Manufacturing	(D)	
Wholesale Trade		1,450
Banking		1,189
Finance/Insurance/Real Estate		6,732
Services		1,200
Other Industries		4,301
TOTAL ALL INDUSTRIES		35,414

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.